

TOP SECRET

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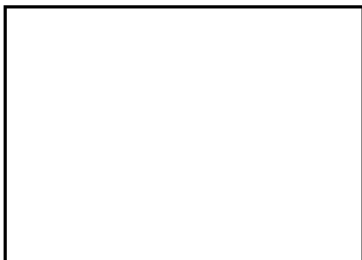
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**2. PEIPING COMMENTS ON TROOP MOVES IN BURMA
BORDER AREA**

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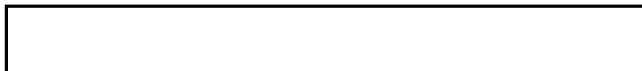


Peiping's first statement about the alleged Communist military intrusion in the disputed Sino-Burmese border area is clearly an attempt to minimize damage to the Communist peace campaign without retreating from the unyielding position the Chinese have taken on the Sino-Burmese border question.

In a broadcast of 3 August, the authoritative "Observer" of People's Daily dismisses newspaper reports that Chinese troops have occupied Burmese territory as "groundless" and "absurd." "The American propaganda machine" is accused of exploiting the situation in an attempt to draw Burma into SEATO and create tension between Burma and Communist China.

Peiping tacitly admits the presence of some Chinese troops in the disputed territory along undemarked portions of the Sino-Burmese border but claims that their mission is to "preserve the status quo" until boundary questions can be settled by diplomatic means through "peaceful consultations and negotiations."

Since 1954, Communist China has brusquely parried repeated Burmese efforts to obtain a negotiated settlement. Peiping's statement suggests the Communists plan to keep their new military outposts in place along the disputed border in order to strengthen Chinese territorial claims.



3. YUGOSLAVS ACCEPT LARGE SOVIET-EAST GERMAN ALUMINUM DEVELOPMENT LOAN

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Under an agreement signed in Moscow and announced on 3 August, the USSR and East Germany have granted Yugoslavia an immediate long term credit of 700,000,000 rubles (\$175,000,000) for the development of a Yugoslav aluminum project, including necessary hydroelectric power facilities. This agreement is to finance construction of facilities with an annual production of 50,000 tons. A future credit for doubling this capacity has been promised.

East Germany and the USSR are each to give an equal share of the present credit, but part of the Soviet share is apparently to be in the form of wheat deliveries. The Yugoslavs will sell the wheat internally to meet the construction costs of the project. All the credits are to be repaid by aluminum exports, which are to start not later than 1961.

Comment

Since mid-June, Belgrade has insisted it was looking for Western financing for both power and aluminum production facilities. As recently as 14 July it publicly reiterated its desire for West European foreign exchange credits and American wheat on credit for local currency needs.

Previous Soviet bloc credits accepted by Yugoslavia totaled \$289,000,000. This newest credit will help satisfy Soviet aluminum needs and Yugoslav wheat needs.

The USSR may have to help finance at least part of East Germany's share of the credit. This credit may be considered by the Yugoslavs as payment of the East German war reparations. The Yugoslavs may have informally promised diplomatic recognition of East Germany in the near future as a quid pro quo, despite the fact that Tito told the West Germans only three weeks ago that his "present" policy was not to do so.

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5. NEPALESE PRIME MINISTER REQUESTS AMERICAN INDUSTRIAL ASSISTANCE



The Nepalese prime minister informed the acting director of the American ICA mission in Katmandu on 30 July of his cabinet's strong feeling that a program of industrial development in Nepal must have the highest priority for fiscal year 1957. The prime minister stated that Nepal needed certain machinery, foreign commodities, and other industrial equipment and technical aid which India could not furnish. Indicating that the development program must begin immediately if free government is to survive in Nepal, the prime minister clearly implied that if the United States could not provide the necessary materials, Katmandu must "reluctantly" accept Communist assistance. The prime minister also implied that the United States should aid Nepal despite Indian efforts to minimize American influence in that country.

Comment

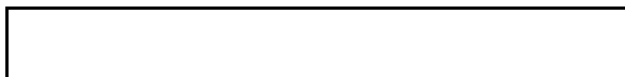
Nepal recently agreed to establish diplomatic relations with Communist China and the USSR, and has received offers of aid from both countries. India is jealous of its dominant position in Nepal and would be uneasy over a material increase in American aid to that country.

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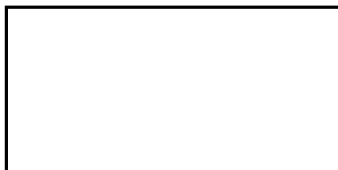
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6. BRITISH URGING NEUTRALITY FOR LAOS

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The British Foreign Office has reiterated to the American embassy in London its belief that Laos will inevitably become neutral, and has

suggested that the time is ripe to solicit from Laotian premier Souvanna Phouma a "favorable" foreign policy statement confirming Laotian neutrality. This statement would declare Laotian neutrality, a foreign policy based on the "five principles of Pandit Nehru," and the intention to defend Laotian independence against any threat.

Comment

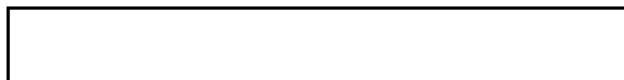
The British evidently have been pressing these views on Souvanna Phouma for some time. The measure of their success is indicated by the closeness with which the premier has followed the British line in his current negotiations with the Pathet Lao.

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7. SOVIET MID-YEAR PLAN FULFILLMENT

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The report on plan fulfillment for the first half of 1956 shows that the Soviet economy is off to a good start on the Sixth Five-Year Plan. Industrial production maintained the 12 percent annual growth rate of the last three years and exceeded the plan by two percent. Targets for principal producer and consumer goods were met or almost met, and data on the production of specific commodities suggest a slight yet noticeable shift in favor of consumer goods. Increases in sown acreage and in deliveries of machinery and fertilizer to agriculture, coupled with continuing good weather, presage a good harvest this fall. Labor productivity increased to the planned degree in both industry (eight percent) and construction (10 percent).

The volume of state investments during the half year, although 10 percent greater than in the corresponding period of 1955, represented only 86 percent of the plan. This performance is attributable primarily to chronic construction difficulties and secondarily to shortfalls in the production of equipment, and, if not corrected, may complicate fulfillment of Five-Year Plan production targets.

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